

**APRIL 30, 2015**  
**IEP UPDATE**  
**PRESENTATION TO AIDEA BOARD**

# AK LEGISLATIVE ACTIONS

- ② Activity in the recently concluded legislative session focused on
- ② **HB105 – the IEP portion of this bill**
  - Expanded the geographic flexibility for the use of AIDEA financing tools to allow for options other than the North Slope
  - Expanded the options allowed for use of the financing tools to include propane and small diameter gas lines
  - Provided intent language that the financing tools only be used for the advancement of IEP goals and that AIDEA use an open and competitive process to select its private partner(s)
  - Set restrictions on AIDEA ability to enter into gas contracts and hold interests in gas leases or reserves
  - Required AIDEA Board approval, by resolution, of an IEP plan prior to further use of the financing tools authorized in SB23
  - Provided for reporting requirements to the Legislature

## ADDITIONAL ACTIONS

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- Updated Bond and Loan authorization amounts to keep up with inflation; to match the cost of projects being submitted for considerations; and to bring consistency between program authorizations
- Removed authorization for a number of “stale” bond authorizations that were on AIDEA’s books

# LEGISLATIVE SESSION

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- ① Considerable Review and Questioning by Legislators
- ① Approach was to respond as completely and fully as possible to all questions and concerns
- ① Time consuming and, on occasion, frustrating (particularly being held to the end)
- ① In the end – the bill passed provides AIDEA the tools to advance the IEP and assurance to the legislature that due consideration was given to the concerns raised
- ① Passed the House 37-2
- ① Passed the Senate 20-0
- ① Concurrence by the House 38-0-2

# 2013 LEGISLATIVE APPROPRIATION

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- Capital budget included removal of North Slope restriction on use of 2013 appropriation.
- Pending transmittal to and signature from the Governor; AIDEA has been granted the authority to proceed on the IEP as outlined in February and March – soliciting alternatives for LNG and supply within the State.

# FINANCING TOOLS AVAILABLE TO IEP

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- ~\$45 million capital appropriation
- \$72.2 million in SB23 SETS financing
- \$150 million in AIDEA bonds

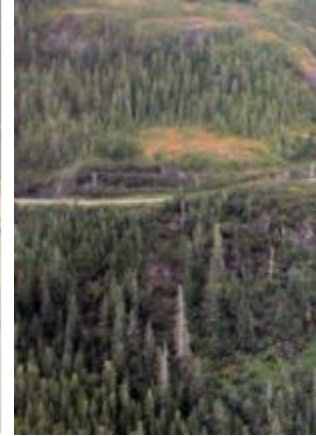
# SUMMARY

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- ④ **Financing tools authorized by Legislature**
- ④ **Competitive solicitations for LNG capacity and gas supply to be issued in mid-May, finalists in June/July**
- ④ **Private Partner Selection in July/August**
- ④ **Distribution build-out continues in Fairbanks and North Pole this summer**

# PENTEX PRESENTATION





# Alaska Industrial Development and Export Authority

## Draft Financial Plan Pentex Alaska Natural Gas Company, LLC Acquisition

**April 30, 2015**

# Project Overview

- Strategic acquisition of Pentex, promoting an integrated natural gas distribution system in FNSB
- Benefits all Interior residents & businesses
- Plan for transition to “Local Control Entity” within 2 years.
- Immediate rate reductions - ~14% - and progress toward Interior Energy Project goals
- Long term lower capital & operating costs, enabling more economic & rapid system expansion

# Business Case & Financing

- \$54 million investment (\$52.5mm + working capital)
- Expected sale of Titan/AET for \$15.15mm, Q3 2015
- Continued operation by current team under AIDEA ownership while negotiating transition to Local Control Entity by end 2016
- Structure “exit” through SETS, State Appropriation, bonds
- \$2.91mm estimated AIDEA return (5.06%)

# Structure

- 100% of membership interests of Pentex Alaska Natural Gas Company, LLC (“Pentex”)
  - Fairbanks Natural Gas Company, LLC (“FNG”)
  - Titan Alaska LNG, LLC (“Titan”)
  - Arctic Energy Transportation, LLC (“AET”)
  - Polar LNG, LLC (“Polar”)
  - Cassini LNG Storage, LLC (“Cassini”)
- Sellers
  - Harrington Partners, L.P. (85%), Pentex Alaska Natural Gas Company (10%), Dan Britton (5%)

## Structure (cont.)

- \$2.675mm deposit
- Converts to “Holdback Amount” closing
- Remainder of purchase price paid at closing
- Planned closing by 7/31/15
- Typical reps & warranties
- Pre-closing business
  - Ordinary business
  - AIDEA to seek expedited RCA approvals
  - AIDEA approval of certain changes to disclosures

## Structure (cont.)

- Harvest Alaska Contracts
  - Sale of Titan and AET assets to Harvest Alaska for \$15.15 million
  - Harvest Alaska 10-year LNG supply agreement to FNG
    - \$15/Mcf, adjusted
    - Price opener after year 5
  - AIDEA can negotiate re cost, supply with Harvest after PSA signed
  - Expected to close by 9/30/15
  - Subject to RCA + AG review/approval

## Structure (cont.)

- Conditions precedent
  - Standard conditions +
  - RCA approval of FNG change of control
  - Satisfactory results of environmental assessments
  - No unapproved changes
- Sellers Indemnity Obligations
  - Recovery any losses due to:
    - breach, pre-closing environmental liability, tax liability or pre-closing liability under Harvest agreements

## Structure (cont.)

- AIDEA recovery from:
  - Holdback Amount (for 1 year)
  - Indemnity from Harrington Partners (for 3 years)
    - Capped at \$12mm
  - Certain matters for the time allowed under the statute of limitations
- AIDEA indemnity
  - 3 years for breach
  - subject to appropriation
  - capped at \$12mm



# Termination

- Conditions precedent not satisfied by 7/31/15
- AIDEA
  - Material adverse effect
  - Amended disclosures
  - Environmental assessment satisfaction
- Deposit
  - Retained by Sellers if AIDEA breaches
  - Returned to AIDEA otherwise

# Project Funding

- Economic Development Account (AS 44.88.172)

	\$000	Jul-15	Sep-15	Q1 '17
<b>AIDEA Pentex Acquisition Cash Flows</b>				
Initial Purchase		\$(54.00)	\$ -	\$ -
Titan / AET Sale		\$ -	\$ 15.15	\$ -
AIDEA return on investment		\$ -	\$ -	\$ 2.91
AIDEA FNG sale to Local Control Entity		\$ -	\$ -	\$38.85
AIDEA Investment Balance		\$(54.00)	\$(38.85)	\$ -

*Estimated return rate (as of 4/21/15) 5.06%*

# Project / Investment Schedule

MILESTONE	APPROXIMATE DATE(S)
AIDEA Board Approval	May 2015
Signed Purchase Agreement	5/31/15
RCA change of control approval	June / July 2015
Closing of Pentex purchase	7/31/15
Closing of Titan / AET sale to Harvest	9/30/15
Agreement for FNSB utility consolidation completed	12/31/15
Consolidated utility financing structured	6/30/16
Consolidated utility implementation completed / AIDEA sale of Pentex	12/31/16

# Business Plan

- Acquire Pentex
- Sell Titan / AET
- Operate (as-is) FNG
- Eliminate “corporate” costs:
  - Taxes
  - Return on equity
  - Investor management fees & overhead
  - Regulatory affairs expenses
- Reduce rates to existing rate-payers

# Business Plan

- Plan for integrated/consolidated system
  - Operations
  - Capital
- Implement long-term FNSB gas utility financing
- Transition to LCE control and operation

# Projected Financials - FNG

## FNG Rates

	Pentex / FNG		AIDEA then LCE	
	Current	Rate Case	2016	2020
Rate per Mcf	\$ 23.35	\$ 24.96	\$ 20.00	\$ 16.80
\$ Reduction from Current			\$ 3.35	\$ 6.55
<b>% Reduction from Current</b>			<b>14.3%</b>	<b>28.1%</b>
\$ Reduction from Rate Case			\$ 4.96	\$ 8.16
<b>% Reduction from Rate Case</b>			<b>19.9%</b>	<b>32.7%</b>

## FNG CAPITAL FINANCING

### SOURCES OF FUNDS (000)

Accumulated Revenues	\$ 3,000
Bond Financing	68,848
SETS Financing	30,000
State Appropriation	-
<b>Total - Sources</b>	<b>\$ 101,848</b>

### USES OF FUNDS (000)

FNG System Acquisition	\$ 41,848
Storage	30,000
Distribution System	30,000
<b>Total - Uses</b>	<b>\$ 101,848</b>

# Transition to LCE

- AIDEA and FNSB parties plan for integrated / consolidated natural gas utility
  - Capital plans
  - Operating utility
- AIDEA assists LCE(s) with financing structure
- LCE buys (or leases) FNG from AIDEA

# Utility Consolidation Savings

	AIDEA FTE	Operations Cost	IGU Operations* Cost	Total Separate Cost	Combined Operations FTE	Operations Cost	Total Savings
Personnel Expenses	12	\$1,458,000			20	\$2,170,125	
Other Operating Exp.		\$22,000				\$372,329	
Total Operating Expenses		\$1,380,000	\$2,959,970	\$15,339,970		\$3,542,454	\$1,797,516

\*Breakdown for IGU operation expenses not available.



# Utility Consolidation Savings

## Consolidated Utility Rates

	Pentex / FNG		AIDEA then LCE	
	Current	Rate Case	2016	2020
Rate per Mcf	\$ 23.35	\$ 24.96	\$ 20.00	\$ 15.89
\$ Reduction from Current			\$ 3.35	\$ 7.46
<b>% Reduction from Current</b>			<b>14.3%</b>	<b>31.9%</b>
\$ Reduction from Rate Case			\$ 4.96	\$ 9.07
<b>% Reduction from Rate Case</b>			<b>19.9%</b>	<b>36.3%</b>

## CONSOLIDATED SYSTEM CAPITAL FINANCING

### SOURCES OF FUNDS (000)

Accumulated Revenues	\$ 4,300
Bond Financing	131,058
SETS Financing	72,778
State Appropriation	15,000
<b>Total - Sources</b>	<b>\$ 223,136</b>

### USES OF FUNDS (000)

FNG System Acquisition	\$ 41,848
Storage	50,000
FNG Distribution System	30,000
IGU Distribution System	101,288
<b>Total - Uses</b>	<b>\$ 223,136</b>

# Economic Development & AIDEA Suitability

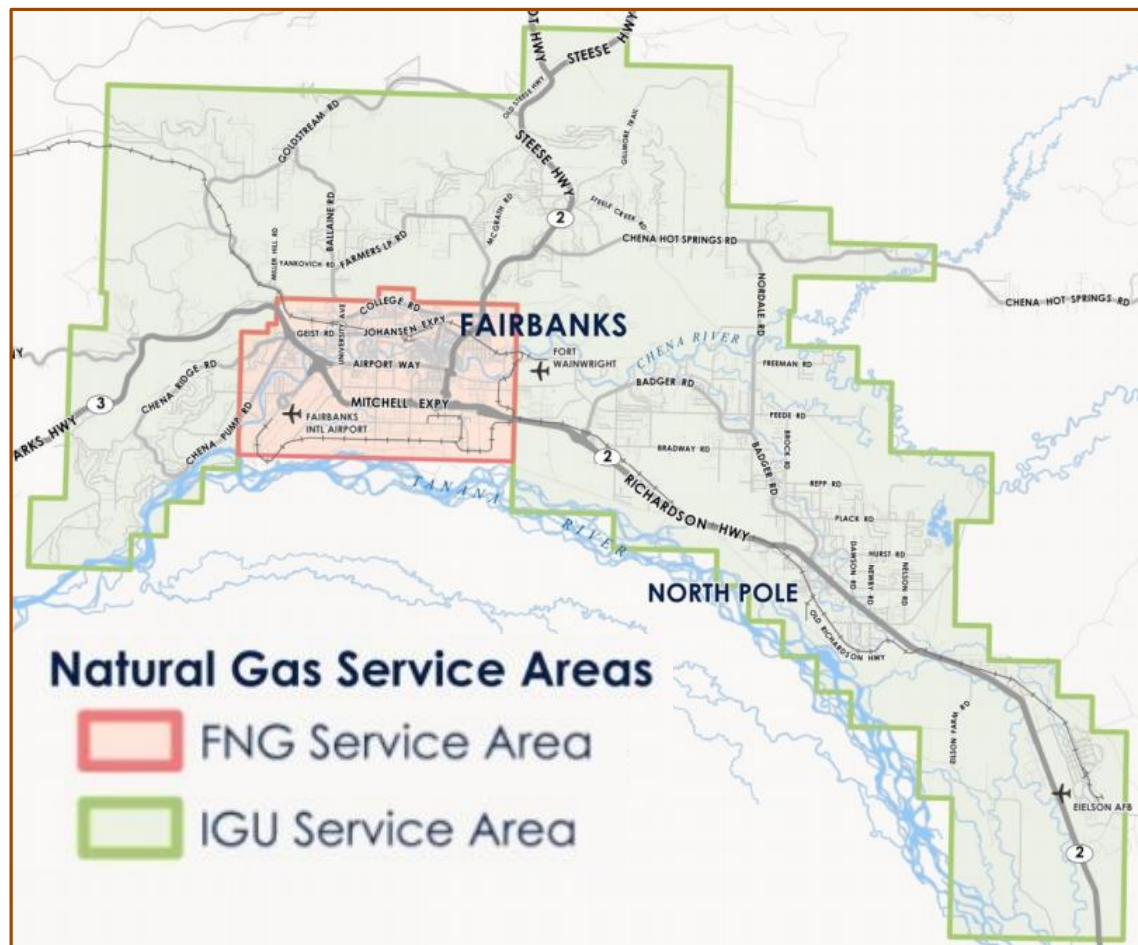
- Provides the opportunity for immediate and long term rate relief for FNSB customers
  - AIDEA's cost of capital is lower than Pentex's
  - An AIDEA (or local publicly owned) utility is not subject to Federal income tax
  - Certain non-cash expenses (e.g. depreciation) can be eliminated from the rate structure
- AIDEA's preliminary financial plan indicates that FNG rates could be reduced
  - 2015 rates could be reduced by ~8% from current rates or ~14% from proposed rates in pending rate case
  - Estimated FNG 2019 rates could be 15-20% lower

# Support of IEP Goals

- Increases likelihood of reaching IEP's \$15/Mcf goal
- Even with first .95 Bcf at the higher Harvest price, goal can be achieved with savings on expansion capital and operating costs and new LNG supply
- Ensures effective leverage of IEP financing tools – support both the FNSB distribution system and expanded supply from Cook Inlet or North Slope
- Local government consultation underway

# Economic Development & AIDEA Suitability

- Reduce construction cost
- Reduce O&M and overhead costs
- Restart FNG's efforts to build storage
- Unified effort to purchase LNG
- Faster expansion of service to customers through coordinated build out of system



# Due Diligence Review of the Proposed Purchase of Pentex

- Full due diligence has been conducted and will be completed before the financing is approved
  - Full financial, technical, and legal review
  - Ensure proposed purchase price reflective of fair market value
  - Examine the existing agreements with Hilcorp
  - Complete finance plan that shows AIDEA will recover its investment with rate of return under AS: 44.88.172
  - Ensure purchase will advances the Interior Energy Project goals and promotes economic development
  - Solicit review and advice of local governments

# Valuation Due Diligence

- The Brattle Group
- Experts in utility economics and valuation
- Comparables
  - Traded
  - Transactions
- Valuation ratios
  - $EV / BV$
  - $EV / EBITDA$

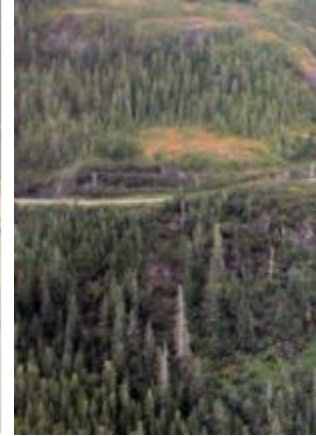
# Risks & Risk Mitigation

Risks	Issues	Mitigation
Environmental	<ul style="list-style-type: none"> <li>Limited environmental risk</li> <li>Known spill @ Port MacKenzie</li> </ul>	<ul style="list-style-type: none"> <li>Phase I / Phase II assessments</li> <li>Conditions precedent</li> <li>Indemnification</li> </ul>
Regulatory	<ul style="list-style-type: none"> <li>RCA approval of FNG change of control</li> <li>RCA and AG approval of Harvest Agreements</li> </ul>	<ul style="list-style-type: none"> <li>Conditions precedent</li> <li>Contingency plans re gas supply / IES</li> </ul>
Economic / Financial	<ul style="list-style-type: none"> <li>Ordinary business risks</li> <li>Political pressure on rates . Financials</li> <li>Oil prices</li> </ul>	<ul style="list-style-type: none"> <li>AIDEA-planned reduction in costs improves on already cash-flow-positive business</li> <li>Financial plan restrictions</li> <li>Base-case operating plan</li> </ul>
LNG / Natural Gas Supply	<ul style="list-style-type: none"> <li>Harvest agreements dis-approved</li> </ul>	<ul style="list-style-type: none"> <li>IES alternative sources</li> <li>Current contract thru March '18</li> </ul>

## Next Steps

- Final technical and environmental due diligence
- Meeting with community groups – with input back to board
- Finalize financial plan
- Board tours of Pentex facilities
- Present to Board for decision in May





# Alaska Industrial Development and Export Authority

**Questions?**

# HB105 FINAL SUMMARY

## **HB105**

HB105 PASSED      HOUSE 37-2  
                             SENATE 20-0  
                             CONCURRENCE 38-0, 2 EX

### **ORIG HOUSE BILL PROVIDED FOR**

- ALLOWING AIDEA THE FLEXIBILITY TO CONSIDER OPTIONS OTHER THAN THE NORTH SLOPE OF ALASKA AND TRUCKED LNG (PROPANE AND SMALL DIAMETER PIPE);
- INTENT AND STATUTE LANGUAGE ENSURING THAT THE PROJECT SELECTED HAS DIRECTION AND OVERSIGHT SUFFICIENT TO MEET THE INTENT AND WILL OF THE LEGISLATURE;
- ADJUSTING AIDEA STATUTORY BONDING AND LOAN LIMITS TO ADJUST FOR INFLATION, THE COST OF PROJECTS, AND TO PROVIDE CONSISTENCY IN LIMITS BETWEEN PROGRAMS;
- REPEALING/REDUCING PAST BOND AUTHORIZATIONS ; AND
- ADDING NEW BOND/LOAN AUTHORIZATIONS

### **THE SENATE CS ACCOMPLISHES 4 OF THOSE 5 ITEMS.**

- IT ACCEPTS THE FLEXIBILITY AS MODIFIED BY THE HOUSE;
- IT INCLUDES MODIFIED INTENT LANGUAGE AND STATUTORY “SIDEBOARDS” ADDED BY THE HOUSE;
- IT ADJUSTS AIDEA BOND/LOAN LIMITATIONS USING THE LANGUAGE APPROVED BY THE HOUSE;
- IT ACCEPTS THE REPEALS AND REDUCTIONS OF PAST BOND AUTHORITY AS APPROVED BY THE HOUSE;
- IT DOES NOT, HOWEVER, CONTAIN THE BOND/LOAN AUTHORIZATIONS ADDED BY HOUSE FINANCE

**SENATE CS FOR CS FOR HOUSE BILL NO. 105(FIN) am S**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-NINTH LEGISLATURE - FIRST SESSION**

**BY THE SENATE FINANCE COMMITTEE**

**Amended: 4/26/15**

**Offered: 4/18/15**

**Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR**

**A BILL**

**FOR AN ACT ENTITLED**

1    **"An Act relating to the programs and bonds of the Alaska Industrial Development and**  
2    **Export Authority; relating to the Alaska Industrial Development and Export Authority**  
3    **sustainable energy transmission and supply development fund; repealing bond**  
4    **authorizations granted to the Alaska Industrial Development and Export Authority;**  
5    **amending the definition of 'qualified energy development'; relating to the financing**  
6    **authorization through the Alaska Industrial Development and Export Authority of a**  
7    **liquefied natural gas production plant and natural gas energy projects and distribution**  
8    **systems in the state; requiring the Alaska Industrial Development and Export Authority**  
9    **to deliver to the legislature reports relating to the Interior energy project; and providing**  
10    **for an effective date."**

11    **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

12    **\* Section 1.** The uncoded law of the State of Alaska is amended by adding a new section

1 to read:

2 LEGISLATIVE INTENT. It is the intent of the legislature that

3 (1) the increased geographic flexibility provided in sec. 9 of this Act solely  
4 advance the Interior energy project, a project first authorized by the legislature in ch. 26, SLA  
5 2013. The goals of the Interior energy project are to bring affordable natural gas to as many  
6 residents of Interior Alaska communities as possible as quickly as possible. This Act does not  
7 expand the scope of the project nor authorize any other activity beyond accomplishing those  
8 stated goals;

9 (2) the Alaska Industrial Development and Export Authority use an open and  
10 competitive solicitation process to select private entities to participate in developing the  
11 liquefied natural gas production plant capacity and affiliated infrastructure described in this  
12 Act.

13 \* **Sec. 2.** AS 44.88.095(c) is amended to read:

14 (c) Before entering into a lease or other agreement under AS 44.88.090(e)  
15 regarding a project for which the authority agrees to issue bonds in an amount in  
16 excess of **\$10,000,000** [\$6,000,000], there must be filed with the authority a certified  
17 copy of a resolution of the governing body of the political subdivision of the state, if  
18 any, in which the project is to be located, consenting to the location of the project. The  
19 consent need only refer to the general nature of the project ultimately to be acquired **or**  
20 **financed**, as set out in a request of the proposed project applicant. Before entering into  
21 a lease or other agreement under AS 44.88.090(e) regarding a project, the authority  
22 shall find, on the basis of all information reasonably available to it, that

23 (1) the project and its development under this chapter will be  
24 economically advantageous to the state and the general public welfare and will  
25 contribute to the economic growth of the state;

26 (2) the project applicant is financially responsible;

27 (3) provision to meet increased demand **on** [UPON] public facilities  
28 that might result from the project is reasonably assured; and

29 (4) the project will provide, or retain, employment reasonably related  
30 to the amount of the financing by the authority, considering the amount of investment  
31 **for each** [PER] employee for comparable facilities and other relevant factors.

1     \* **Sec. 3.** AS 44.88.095(g) is amended to read:

2             (g) The authority may issue bonds in an amount greater than **\$25,000,000**  
 3             [\$10,000,000] to assist in the financing of a development project under AS 44.88.172 -  
 4             44.88.177 only if approved by **the legislature** [LAW], excluding refunding bonds.  
 5             Refunding bonds may be issued without further approval by **the legislature** [LAW] in  
 6             a principal amount sufficient to provide funds for the payment of all bonds to be  
 7             refunded by them and, in addition, for the payment of all other amounts that the  
 8             authority considers appropriate in connection with the refunding, including expenses  
 9             incident to the redeeming, calling, retiring, or paying of the outstanding bonds, the  
 10            funding of reserves, and the issuance of the refunding bonds.

11    \* **Sec. 4.** AS 44.88.155(d) is amended to read:

12            (d) A loan participation purchased by the authority with assets of the  
 13            enterprise development account or with proceeds of bonds secured by assets of the  
 14            enterprise development account

15                   (1) may not exceed **\$25,000,000** [\$20,000,000]; however, in the case  
 16            of a loan participation for qualified energy development, the loan participation may  
 17            exceed **\$25,000,000** [\$20,000,000] with legislative approval;

18                   (2) may not be purchased unless

19                           (A) the project applicant is not, or, if the applicant is not a  
 20                           single proprietorship, all members of the business enterprise or enterprises  
 21                           constituting the project applicant are not, in default on another loan made by  
 22                           the state or by a public corporation of the state; and

23                           (B) at least 10 percent of the principal amount of the loan is  
 24                           retained by the loan originator, or the loan is for financing improvements in  
 25                           energy efficiency;

26                   (3) may not be purchased if the loan to be purchased exceeds 75  
 27            percent of the appraised value of the collateral offered as security for the loan unless  
 28            the amount of the loan in excess of this limit is federally insured or guaranteed or is  
 29            insured by a qualified mortgage insurance company, except that the loan to be  
 30            purchased under this paragraph may not exceed the total of loan proceeds used to  
 31            refinance an existing debt plus the cost of new construction, expansion, or acquisition

1 unless the proceeds from the additional amounts of the loan to be purchased are  
 2 restricted to uses approved by the authority to finance commercial activity in the state  
 3 by a business enterprise;

4 (4) may not be purchased if the participation in the loan to be  
 5 purchased is for a term longer than the following, except that a loan under (A) or (C)  
 6 of this paragraph may not have a term longer than three-quarters of the authority's  
 7 estimate of the life of the collateral offered as security for the loan:

8 (A) 40 years from the date the loan is made in the case of a  
 9 loan participation for a project described in AS 44.88.900(11)(E);

10 (B) 50 years from the date the loan is made in the case of a loan  
 11 participation for qualified energy development;

12 (C) 25 years from the date the loan is made in the case of a loan  
 13 participation for other projects;

14 (5) may be made only if the participation in the loan to be purchased  
 15 contains amortization provisions; the amortization provisions

16 (A) must be complete and satisfactory to the authority and  
 17 require periodic payments by the borrower;

18 (B) may allow the loan originator to amortize the portion of the  
 19 loan retained by the loan originator using a shorter amortization schedule than  
 20 the amortization schedule for the portion of the loan held by the authority if

21 (i) in the authority's opinion, the project financed can  
 22 support the increased debt service; and

23 (ii) the accelerated amortization schedule is required to  
 24 induce the originator to make the loan;

25 (6) may be made only if the participation in the loan to be purchased is  
 26 in the form and contains the terms and provisions with respect to insurance, repairs,  
 27 alterations, payment of taxes and assessments, default reserves, delinquency charges,  
 28 default remedies, acceleration of maturity, secondary liens, and other matters the  
 29 authority prescribes; and

30 (7) may be made only if the participation in the loan to be purchased is  
 31 secured as to repayment by a mortgage or other security instrument in the manner the

1 authority determines is feasible to assure timely repayment under the loan documents  
2 entered into with the borrower.

3 \* **Sec. 5.** AS 44.88.170(a) is amended to read:

4 (a) **Except as provided in (c) of this section, nothing** [NOTHING] in this  
5 chapter prevents the inclusion in a lease or other agreement relating to a project of a  
6 provision granting the right to purchase the project, or to renew or extend the lease or  
7 agreement, upon the terms and conditions **that** [WHICH] may be provided for in the  
8 lease or agreement.

9 \* **Sec. 6.** AS 44.88.170 is amended by adding a new subsection to read:

10 (c) The authority, without first obtaining legislative approval, may not enter  
11 into a gas supply contract with a natural gas producer to provide natural gas to Interior  
12 Alaska as a primary market unless the contract is for the benefit of a natural gas  
13 liquefaction or distribution utility that is owned by the authority or a subsidiary of the  
14 authority and the contract is for the natural gas producer to provide the utility, and  
15 only the utility, with a natural gas supply that the utility uses to serve customers in  
16 Interior Alaska.

17 \* **Sec. 7.** AS 44.88.690(a) is amended to read:

18 (a) Unless the authority has obtained legislative approval by law, the authority  
19 may not use the Alaska Industrial Development and Export Authority sustainable  
20 energy transmission and supply development fund established in AS 44.88.660 to  
21 [MAKE]

22 (1) **make** a loan for more than one-third of the capital cost of qualified  
23 energy development; [OR]

24 (2) **make** a loan guarantee if the amount of the guarantee exceeds  
25 \$20,000,000; **or**

26 (3) **purchase or acquire gas reserves or a gas lease or become a**  
27 **working interest owner of a natural gas lease.**

28 \* **Sec. 8.** AS 44.88.900(16) is amended to read:

29 (16) "qualified energy development" means a development in the state  
30 that involves

31 (A) transmission, generation, conservation, storage, or



1 distribution of heat or electricity;

2 (B) liquefaction, regasification, distribution, storage, or use of natural gas; **in this**  
 3 **subparagraph,**

4 (i) **"distribution" does not include** [EXCEPT] a  
 5 natural gas pipeline project for transporting natural gas from the North  
 6 Slope or Cook Inlet to market **unless the pipeline has a diameter of**  
 7 **12 inches or less and transports the natural gas to Interior Alaska;**

8 (ii) **"natural gas" includes propane or propane and**  
 9 **air mixture;**

10 (C) distribution or storage of refined petroleum products;

11 \* **Sec. 9.** The uncoded law of the State of Alaska enacted by sec. 11(a), ch. 26, SLA 2013,  
 12 is amended to read:

13 (a) The Alaska Industrial Development and Export Authority, through the  
 14 Alaska Industrial Development and Export Authority sustainable energy transmission  
 15 and supply development fund (AS 44.88.660), may provide financing up to a principal  
 16 amount of \$275,000,000 for the development, construction, and installation of, and the  
 17 start-up costs of operation and maintenance for, a liquefied natural gas production  
 18 plant and system and affiliated infrastructure **in the state that will provide natural**  
 19 **gas to Interior Alaska as a primary market** [ON THE NORTH SLOPE] and [A]  
 20 natural gas **delivery and** distribution **systems** [SYSTEM] and affiliated infrastructure  
 21 **that will provide natural gas to** [IN] Interior Alaska, **if the members of the Alaska**  
 22 **Industrial Development and Export Authority approve by resolution a project**  
 23 **plan. The project plan must**

24 **(1) identify the source of the natural gas;**

25 **(2) include the estimated cost of the project; and**

26 **(3) include the estimated price of natural gas supplied to natural**  
 27 **gas utilities in Interior Alaska before distribution to consumers.**

28 \* **Sec. 10.** The uncoded law of the State of Alaska enacted by sec. 11(g), ch. 26, SLA  
 29 2013, is amended by adding a new paragraph to read:

30 (3) "natural gas" includes

31 (A) propane; and

(B) propane and air mixture.

\* **Sec. 11.** The uncoded law of the State of Alaska enacted by sec. 25, ch. 123, SLA 1990, as repealed and reenacted by sec. 1, ch. 3, FSSLA 1992, is amended to read:

Sec. 25. The Alaska Industrial Development and Export Authority may issue bonds to finance the acquisition, design, and construction of aircraft maintenance air cargo/air transport support facilities located at Anchorage International Airport, to be owned by the Authority. The principal amount of the bonds may not exceed \$28,000,000 [\$85,000,000]. This section grants the legislative approval required by AS 44.88.095.

\* **Sec. 12.** Section 2, ch. 27, SLA 1993, as amended by sec. 19, ch. 111, SLA 1996; sec. 3, ch. 27, SLA 1993; sec. 7, ch. 76, SLA 1995; sec. 24, ch. 111, SLA 1996; secs. 24(a) and 24(b), ch. 109, SLA 1998; sec. 24(d), ch. 109, SLA 1998, as amended by sec. 1, ch. 93, SLA 2006; and sec. 1, ch. 37, SLA 2004, are repealed.

\* **Sec. 13.** The uncoded law of the State of Alaska is amended by adding a new section to read:

REPORT. (a) The Alaska Industrial Development and Export Authority shall submit quarterly to the legislature a written report on the Interior energy project. The authority shall deliver the report to the senate secretary and the chief clerk of the house of representatives and notify the legislature that the report is available. The report must include

- (1) a description of project progress on all components;
- (2) an update on the status of local distribution infrastructure buildout;
- (3) to-date and anticipated conversions; and
- (4) a financial accounting of funds expended and funds anticipated to be spent, including loans, grants, and bonds.

(b) If requested, the Alaska Industrial Development and Export Authority shall provide a project briefing on the Interior energy project to the Legislative Budget and Audit Committee.

\* **Sec. 14.** Section 13 of this Act is repealed June 30, 2025.

\* **Sec. 15.** This Act takes effect immediately under AS 01.10.070(c).

# HB105 SECTIONAL ANALYSIS

**CS House Bill 105 H/FIN version I**  
**AIDEA: Bonds; Programs; Loans; LNG Project**  
**Sectional Analysis**

**Section 1:** adds intent language to clarify that the financial tools discussed in Section 10 are only for the benefit of the Interior Energy Project described in Section 10.

**Section 2:** increases the limit under AS 44.88.095(c) from \$6 million to \$10 million. AS 44.88.095(c) requires AIDEA to receive a certified copy of a resolution of the municipality or from the Regional Resource Advisory Council (in the Unorganized Borough) consenting to the location of a project if AIDEA is to issue bonds exceeding \$6,000,000. AIDEA recommends that this cap be increased to \$10,000,000 to better reflect the true costs of projects in 2015.

**Section 3:** increases the limit under AS 44.88.095(g) from \$10 million to \$25 million. AS 44.88.095(g) requires that AIDEA receive legislative approval to issue bonds in amounts over \$10 million to finance a development project. The current bond limitations have lessened AIDEA's ability to utilize bonding as a tool in funding small to mid-size projects due to the time it takes to get authorization from the Legislature and to go through the community authorization process. Additionally, AIDEA is recommending the dollar amount of bond limitations be the same as the dollar amount limit on loan participations AS 44.88.155(d)(1) since loan participations may be funded through bond issuances.

**Section 4:** changes the loan participation limit under AS 44.88.155(d)(1) to \$25 million (current limit - \$20 million), and \$25 million (current limit - \$20 million) for a loan participation for a qualified energy project without the necessity of obtaining prior legislative approval. Increasing the limits would allow AIDEA to provide more of the financing for a large commercial project and a qualified energy project and provide better financing terms for those projects.

**Section 5:** adds an exception to AIDEA's ability to enter into projects that involve a lease.

**Section 6:** requires legislative approval before AIDEA may enter into a gas supply contract with a natural gas producer in order to supply natural gas to Interior utilities unless the gas contract is for a natural gas liquefaction plant or distribution system that is owned by the Authority or a subsidiary of the Authority.

**Section 7:** prohibits AIDEA from using the SETS fund to purchase natural gas reserves or a gas lease or a working interest owner of a natural gas lease.

**Section 8:** amends the definition of "qualified energy development" that qualifies for SETS financing to include consideration of propane and possible delivery of natural gas to Interior Alaska via pipeline no larger than 12 inches in diameter.

**Section 9:** refreshes a previous AIDEA bond authorization for a bulk commodity handling facility in Cook Inlet. The language requires the facility to be located at Point MacKenzie.

**Section 10:** changes the uncodified law [11(a), ch. 26, SLA 2013] that deals with the Interior Energy Project (IEP). Deletes the phrase "on the North Slope" and changes it to "in the state that will provide natural gas to Interior Alaska" so that natural gas can be sourced anywhere in the state. The section also clarifies that existing IEP financing can be used to support more than one natural gas distribution system in Interior Alaska. Requires the AIDEA Board to approve a project plan by resolution that includes the following items before SETS financing tools can continue to be used for the IEP.

1. An identified source of natural gas or propane
2. An estimated cost of the project
3. An estimated price for the resource delivered to Interior Alaska utilities

**Sections 11:** reduces a previous AIDEA bond authorization at the Anchorage International Airport from \$85,000,000 to \$28,000,000.

**Section 12:** repeals legislative bond authorizations (1994 through 2006) under 44.88.095(g) for potential projects that were determined not to be feasible or did not move forward for other reasons. The repeal of these authorizations would be beneficial to AIDEA's bond rating as AIDEA moves forward to utilize its bonding capacity for future projects. Authorizations to be repealed include:

1. \$50,000,000 for construction of processing facility for seafood (ASI) - 1993 authorization.
2. \$20,000,000 to assist in construction of Kodiak launch complex facilities 1995 authorization.
3. \$80,000,000 to fund expansion at Red Dog port – 1998 authorization.
4. \$30,000,000 to finance improvement at Nome port facility – 1998 authorization.
5. \$25,000,000 to finance development at Hatcher Pass located in Matanuska-Susitna Borough – amended 2006 authorization.
6. \$20,000,000 to finance construction of port facilities on Lynn Canal – 2004 authorization

**Section 13:** places a sunset of June 30, 2019 on the bulk commodity handling facility bonding authorization contained in Section 9.

**Section 14:** authorizes AIDEA to issue bonds to finance infrastructure and construction cost of the Sweetheart Lake hydroelectric project not to exceed \$120,000,000 if a project financing application is submitted that meets the Authorities due diligence standards and investment criteria.

**Section 15:** authorizes AIDEA to issue bonds to finance Railbelt electric transmission upgrades between Hope substation and Portage, between Powerline Pass and Indian and to the Eklutna hydroelectric system. The total bonding authorization for the Hope/Portage and Powerline Pass/Indian improvements may not exceed \$107,100,000. The total authorization for the Eklutna system may not exceed \$20,400,000.

**Section 16:** authorizes the Alaska Energy Authority to enter into a loan from the Power Project Fund for up to \$3,000,000 for the King Cove Waterfall Creek hydroelectric project if a project financing application is submitted that meets AEA's due diligence standards and investment criteria.

**Section 17:** requires AIDEA to submit a quarterly report on the status of the Interior Energy Project. Also instructs AIDEA to provide briefings to the Legislative Budget and Audit Committee when requested.

**Section 18:** places a sunset of June 30, 2019 on the Sweetheart Lake, Railbelt transmission and Waterfall Creek bond authorizations contained in Sections 14, 15 and 16.

**Section 19:** places a sunset of June 30, 2020 on the reporting requirements contained in Section 17.

**Section 20:** provides an immediate effective date on the legislation.

# SUMMARY OF PENTEX PURCHASE AND SALE

## **Summary of LLC Membership Purchase and Sale Agreement**

### **Nature of Transaction:**

- AIDEA is to buy 100% of the membership interests in Pentex Alaska Natural Gas Company, LLC, a Delaware limited liability company.
- The transaction is structured as a “stock purchase,” not as an “asset purchase.” AIDEA will acquire the entire Pentex *entity*. After Closing, Pentex and its Subsidiaries under AIDEA’s ownership will continue to hold their existing assets and liabilities, including: (1) all gas purchase contracts; (2) the contract to sell the Titan LNG plant to Harvest Alaska; (3) service contracts under which FNG supplies gas to business and residential customers; and (4) any liabilities, such as an existing remediated spill site.
- There are three Sellers:
  - (1) Harrington Partners, L.P., a Delaware limited partnership (85% owner);
  - (2) Pentex Alaska Natural Gas Company, a Texas corporation (10% owner);
  - (3) Daniel Britton (5% owner).
- Pentex’s assets include anything that it owns or controls through its Subsidiaries, which together with Pentex constitute the Acquired Companies under the terms of the Purchase Agreement:
  - (1) Fairbanks Natural Gas Company, LLC (Fairbanks gas distribution utility);
  - (2) Titan Alaska LNG, LLC (LNG plant and trucking operator);
  - (3) Arctic Energy Transportation, LLC (LNG fueling station operator);
  - (4) Polar LNG, LLC (North Slope LNG plant developer – inactive);
  - (5) Cassini LNG Storage, LLC (Fairbank storage facility developer – inactive).

### **Basic Purchase Terms:**

- Purchase Price is \$52.5 million *plus* Net Working Capital of the Acquired Companies as of the Closing Date.
- Net Working Capital is the amount by which current assets exceed current liabilities, but it cannot be more than \$1.5 million.

- AIDEA is to pay the Deposit of \$2,675,000 upon signing Purchase and Sale Agreement. The Deposit will be held by U.S. Bank as Escrow Agent.
- The Deposit converts into the Holdback Amount at Closing. AIDEA can make claims against the Holdback Amount for one year after Closing. At the one year anniversary, the remaining Holdback Amount is to be disbursed to Sellers.
- Remainder of the Purchase Price is to be paid in cash at the Closing, including an estimated amount for Net Working Capital. After Closing, the CPAs will “true up” the Net Working Capital to match finalized numbers.
- Closing is to occur as soon as all conditions are satisfied, but in no event later than July 31, 2015.

### **Sellers’ Representations and Warranties**

- Article 3 of the Agreement contains extensive representations and warranties Sellers are making for AIDEA’s benefit. These representations and warranties are standard for this type of transaction.
- Sellers’ representations and warranties extend to matters such as:
  - (1) Sellers have clear title and the necessary authority to transfer ownership of Pentex to AIDEA;
  - (2) The financial statements of the Acquired Companies provided to AIDEA are accurate;
  - (3) The Acquired Companies have good title to all the real and personal property listed, and all the property is in good condition and repair and sufficient to continue the existing businesses;
  - (4) Accounts receivable are valid and collectible, subject to the bad debt reserve on the accounting books;
  - (5) The Acquired Companies have all the Permits and Licenses needed to conduct the businesses;
  - (6) There are no legal proceedings against the Acquired Companies and no undisclosed liabilities;
  - (7) The Acquired Companies are in compliance with all Environmental, Health and Safety Laws, with no releases of hazardous substances;
  - (8) The Acquired Companies have no tax liabilities.



- Any exceptions to the Sellers' representations and warranties must be listed in the Disclosure Schedules to the Agreement.
- If Sellers breach any of the representations and warranties, AIDEA may seek to collect for losses out of the Holdback Amount, or AIDEA may seek indemnity under Article 9.

### **AIDEA's Representations and Warranties**

- AIDEA is making a few representations and warranties to Sellers that are standard for this type of transaction, focused principally on AIDEA's authority to enter into and perform the Agreement.
- AIDEA is also representing that it has sufficient funds to complete the transaction and this is to be supported by a certificate from AIDEA's Chief Financial Officer.

### **Conduct of Business Prior to Closing**

- The Acquired Companies are to operate their businesses in the ordinary course prior to Closing, preserving their assets and businesses.
- AIDEA is to seek expedited approval of the Regulatory Commission of Alaska (RCA) for the change in control of Fairbanks Natural Gas, and Sellers are to cooperate with AIDEA in doing so. The RCA must determine that AIDEA can operate an utility.
- Sellers are to give AIDEA access to the businesses and records of the Acquired Companies pending Closing. This includes allowing AIDEA to complete environmental assessments of real property at AIDEA's expense.
- Sellers are to update the Disclosure Schedules as necessary prior Closing, with AIDEA having the right to approve of any changes made (other than the addition of the second quarter 2015 financial reports).

### **Harvest Alaska Contracts**

- AIDEA's purchase of Pentex will leave the two Harvest Alaska contracts in place:
  - (1) The contract for Titan Alaska LNG to sell the Point Mackenzie LNG plant and the trucking equipment, and for Arctic Energy Transportation (AET) to sell the two LNG fueling facilities, for total of \$15,150,000; and
  - (2) Harvest Alaska's 10-year contract to supply LNG to Fairbanks Natural Gas for its existing customer base at \$15 per Mcf delivered to Fairbanks, subject to price adjustments over time.
- The two Harvest Alaska contracts are subject to the approval of the RCA and require the consent of the Alaska Attorney General under antitrust laws. AIDEA is committed under

the Agreement to not challenge the validity the Harvest Alaska contracts or to delay their approvals.

- The Harvest Alaska contracts are expected to close after AIDEA's purchase of Pentex is completed. Pentex under AIDEA's ownership would therefore receive the purchase price to be paid for the Titan Alaska LNG and AET assets (\$15,150,000).
- If the Harvest Alaska contracts close first, Sellers are entitled to disburse to themselves the purchase price paid for the Titan Alaska LNG and AET assets, and AIDEA's purchase price for Pentex will be reduced by the same amount.
- Pending the Closing, AIDEA is entitled to discuss contract amendments or new gas supply contracts with Harvest Alaska and Hilcorp so long as no amendment or new contract goes into effect until AIDEA's purchase of Pentex is completed.

### **Conditions to Closing**

- Closing is subject to fulfillment of certain conditions, most of which are standard for this type of Agreement (e.g., no adverse events; no litigation against the transaction; no breach of any representation or warranty).
- Approval of the RCA for AIDEA assuming control over Fairbanks Natural Gas is a condition to Closing.
- AIDEA's obligation to close is conditioned on its satisfaction with the results of the environmental assessments it is conducting.
- AIDEA's obligation to close is conditioned on it approving any amendments to Sellers' Disclosure Schedules (other than the addition of the second quarter 2015 financial reports).

### **Sellers' Indemnity Obligations**

- AIDEA can recover for any losses it incurs because of a breach in Sellers' obligations under the Agreement, a breach in Sellers' representations and warranties, a Pre-Closing Environmental Liability, a tax liability of Sellers, or a pre-Closing liability under the Harvest Alaska contracts.
- AIDEA can recover for such matters in various ways:
  - (1) For one year after the Closing, AIDEA can proceed against the Holdback Amount;
  - (2) For a period of three years after Closing, AIDEA can seek indemnity from Harrington Partners, L.P. for such matters; the indemnity obligation is "capped" at an aggregate amount of \$12 million, except for fraud, intentional misconduct, or breach of Sellers' Fundamental Representations.

- For the period of time allowed by the statute of limitations, AIDEA can also seek to recover from Harrington Partners, L.P. for certain specified matters (a breach of the Fundamental Representations; government fines for Pre-Closing Environmental Liabilities; an indemnity obligation to Harvest Alaska related to the pre-Closing period).

### **AIDEA's Indemnity Obligations**

- For a period of three years after Closing, AIDEA is obligated to indemnify Sellers from any losses they suffer as a result of AIDEA's breach of its obligations under the Agreement, or its representations and warranties, or its ownership of the Acquired Companies after Closing.
- AIDEA's indemnity obligation is subject to legislative appropriation, if necessary, to make payment from AIDEA funds, and AIDEA is committed to seek an appropriation if one is needed to satisfy an indemnity obligation.
- AIDEA's indemnity obligation is "capped" at an aggregate amount of \$12 million, except for fraud or intentional misconduct.

### **Termination**

- Either party can terminate the Agreement if the conditions to Closing are not satisfied by July 31, 2015.
- AIDEA can terminate the Agreement if there is Material Adverse Effect on the Acquired Companies that is not remedied.
- AIDEA can terminate the Agreement if Sellers amend the Disclosure Schedules and AIDEA does not approve the amendment.
- AIDEA can terminate the Agreement if AIDEA is not reasonably satisfied with the results of the environmental assessments it conducts.
- Upon termination, Sellers can retain the Deposit if the termination occurs because AIDEA breached the Agreement. Otherwise, the Deposit is to be refunded to AIDEA.

# PENTEX – AIDEA TERM SHEET

## PENTEX TERM SHEET

Sellers	<p>Harrington Partners, L.P., (Delaware limited partnership 85%); Dan Britton (5% owner); and Pentex Alaska Natural Gas Company, a Texas Company (10%). Article 2.01 LLC Membership Purchase and Sale Agreement [hereinafter cited as “Purchase Agreement”].</p> <p>These three sellers control Pentex Alaska Natural Gas Company, LLC, [hereinafter cited as “Pentex”]. Pentex is a Delaware LLC that is a holding entity for three active LLCs involved in LNG production and gas distribution in Alaska: (1) Fairbanks Natural Gas, LLC (certificated Fairbanks utility, Alaska LLC); (2) Titian Alaska LNG, LLC (Pt. Mackenzie LNG facility, Delaware LLC); and (3) Arctic Energy Transportation, LLC (operator of two LNG fueling stations, Delaware LLC)</p> <p>Pentex also holds two inactive Delaware LLCs: (1) Polar LNG, LLC (inactive North Slope LNG plant developer, Delaware LLC); and (2) Cassini LNG Storage (non-active Delaware LLC formed to build LNG storage that was not built).</p>
Buyer	Alaska Industrial Development and Export Authority (“AIDEA”) is a public corporation and a political subdivision of the State of Alaska.
Acquisition Type	LLC membership purchase of Pentex, which will include its five LLC subsidiaries through a membership acquisition under the terms of the Purchase Agreement.
Purchase Terms	<p>AIDEA will make an initial payment of \$2,675,000 upon signing of the Purchase Agreement, with an agreed to total purchase price due as Closing of: (1) \$52.5 million; and (2) an amount equal to Pentex’s net working capital at the time of closing (set for July 2015).</p> <p>Net working capital by agreement is capped at no more than \$1.5 million. The term “net working capital” is defined in Section 1.28 as the amount by which the current assets of the acquired companies exceed current liabilities. Under Section 2.04 the accountants for Pentex within 60 days of the Closing date determine the amount of net working capital. Within 10 days of an agreement on that figure, AIDEA shall pay Sellers any shortfall up to a maximum of \$1.5 million or Sellers shall remit to AIDEA any excess amount.</p> <p>There also is a hold back of funds equal to the initial payment of \$2,675,000 for one year from closing to cover AIDEA’s potential expenses for unforeseen liabilities under Section 9.01.</p>
Closing Date	Under Section 8.1 Closing is to occur after all conditions precedent are met, but not later than July 31, 2015.
Permits	Sellers in Disclosure Schedules have listed all permits held by Pentex or its subsidiaries and warranted that these permits are sufficient to allow AIDEA as owner to operate each Pentex business including FNG and the Titian LNG Plant.
Sources and Uses of Funds	AIDEA Revolving Fund
Due Diligence	Sellers have responded to an extensive due diligence document request matrix developed by AIDEA and provided copies of these documents to AIDEA electronically. These documents cover such matters as permits, insurance, description of any environmental liabilities and employment issues. Additionally, Sellers have provided AIDEA with detailed Disclosure Schedules that are part of the Purchase Agreement as well as providing AIDEA with warranties as to corporate governance matters and operational issues. For example, Sellers will provide an Opinion letter from counsel that all acquired LLCs are in good standing. Pentex has provided its financials that have been analyzed by Western Financial.
Escrow and Holdback Funds	Under Section 2.03(b), the Deposit upon Closing is converted to a Holdback Amount to be held by the Escrow Agent. Pursuant to Article 9 AIDEA can use the funds in the Holdback Amount for any damages it suffers for a one year period after closing. These funds, for example, could be used to pay for any pre-closing environmental liabilities, or any tax liability of the Sellers that has not been paid.
Real Estate Issues	AIDEA ordered and received ALTA extended title insurance from First American on all FNG and Titan properties. Pentex ordered title reports from Yukon Title and First American. AIDEA then compared the title reports and received an amended report that is correct. There are no material encumbrances except for a lien by AIDEA based on its loan to FNG.

Events of Default; Remedies	<p>Article 9 provides for several remedies in the event of a default or damage to AIDEA. First, AIDEA has access for a year to the Holdback Amount of \$2,675,000 for one year after closing.</p> <p>Secondly (9.02) Seller Harrington Partners, L.P. is indemnifying AIDEA for three years after closing for any damages attributable to Third Party Claims or direct damages that arise out of four areas: (1) a failure by Sellers to fulfill an agreement or covenant; (2) a breach of Sellers' representations and warranties made in Article 3; (3) any of the excluded liabilities that Sellers agreed to be responsible for as defined in Section 1.15; and (4) a pre-closing environmental liability.</p> <p>This indemnification is limited to a not to exceed aggregate claim amount of \$12 million under Section 9.04, with no limit on fraud or willful misconduct claims.</p>
Conditions Precedent to Closing	<p>There are conditions precedent for both AIDEA and the Sellers.</p> <p>Conditions Precedent for AIDEA:</p> <p>For this matter to close the Sellers' representations and covenants to AIDEA must be accurate; AIDEA must have all permits and agreements needed to operate the businesses; there must be no ongoing litigation regarding the acquired companies; the condition of the companies must be the materially the same at closing as during due diligence; and Sellers must deliver all necessary documents to AIDEA. Additionally AIDEA has until July 1, 2015 to complete and be satisfied with its own environmental assessments of the acquired properties.</p> <p>Conditions Precedent for Sellers:</p> <p>All AIDEA representations accurate and have made all required payments and executed all necessary documentation at closing.</p>
Change of Control	<p>At Closing, AIDEA will acquire the membership interests in Pentex, which will then become a single member Delaware LLC with AIDEA as the sole member. Delaware law allows a sole member LLC.</p>
Laws and Jurisdiction	<p>The AIDEA Purchase Documents will be governed by Alaska law and all disputes thereunder shall be resolved exclusively by the Superior Court for the State of Alaska, Third Judicial District at Anchorage, Alaska.</p>